Indiana Utility Regulatory Commission

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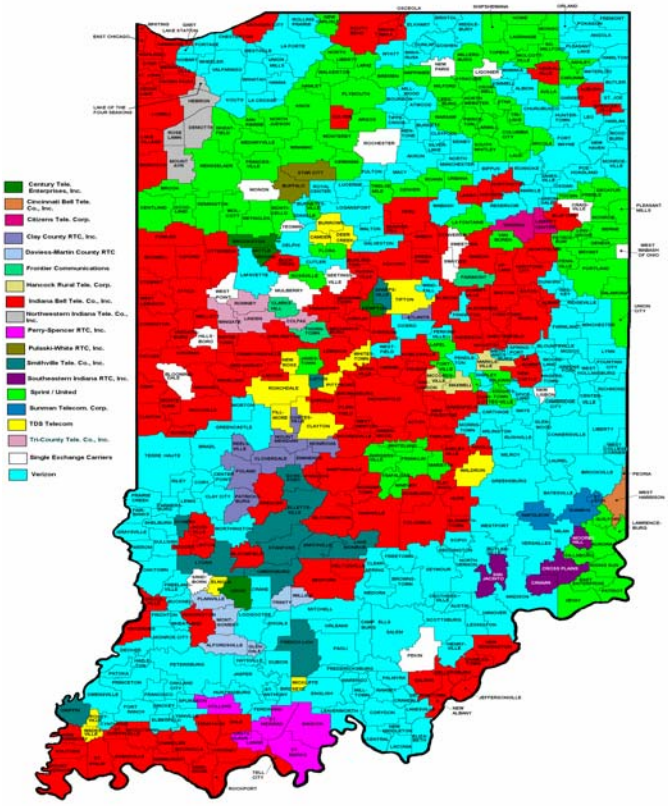

Source: Indiana Telecommunications Association

Indiana Telephone Exchanges by Incumbent Local Exchange Carrier

"TELEPHONE IN TRANSITION"

2004

TELEPHONE REPORT

TO THE

REGULATORY FLEXIBILITY

COMMITTEE OF THE

INDIANA GENERAL ASSEMBLY

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1.0 Executive Summary

This report to the Regulatory Flexibility Committee of the Indiana General Assembly is mandated by the provisions of P.L. 55-1992, Sec. 1, currently codified as Ind. Code 8-1-2.6-4(c) which specifies that:

> The Commission shall, by July 1 of each year, prepare for presentation to The Regulatory Flexibility Committee an analysis of the effects of competition on universal service and on pricing of all telephone services under the jurisdiction of the commission.

The Road Ahead: Nearly a decade after the passage of the landmark Telecommunications Act of 1996 ("TA-96" or "Act") many in the communications sector believe now is the time to revisit the national telecommunications policy. Can the market pick winners and losers? How will tectonic shifts in the federal-state regulatory framework affect Indiana's economy and its tax base? How will revisions to the complex intercarrier compensation plan increase fees paid by Indiana consumers? What will happen to the protections of public safety and welfare, the service quality standards, and the rights of the consumer as a result of the new era in communications?

Broadband will move to center stage in 2005. President Bush recommends universal broadband within a few short years. Can universal service goals be achieved for broadband as effectively as for plain old telephone service? Vint Cerf, credited as one of the architects of the Internet, calls the Telecommunications Act an "artifact of the 20th century" and recommends changes to open access to transmission services to encourage rapid evolution of new broadband services. Reed Hundt, former chairman of the Federal Communications Commission ("FCC"), calls for a "broadband future" and recommends changing policies to open sufficient spectrum to bring a wireless broadband pipe to the home. He encourages fiber to the home; resolution of intercarrier traffic disputes; reformation of spectrum use; and reform of universal service.

As it has for nearly two decades, the Indiana Utility Regulatory Commission ("IURC" or "Commission") will continue to address the complex questions of "who, what, when, where, why, and how to regulate and/or deregulate".

The IURC is Prepared for the Transition: The Commission tackles the controversial issues daily through investigation, dispute resolution, and analysis of evidence and testimony. Commissioners and staff participate in debate at the policy level touching all aspects of the communications revolution. The daily educational diet covers the breadth of issues, statutes, and policies through research, analysis, and review of evidence in the many and varied telecommunications proceedings before the Commission.

Commissioners are active participants on Federal-State Joint Boards and often provide leadership to national committees[1] developing the framework for intercarrier

[1] National Association of Regulatory Utility Commissioners

compensation and broad telecommunications policies. Staff members support the Commissioners in these efforts and directly support the Federal-State Joint Board on Universal Service and the Federal-State Joint Board on Separations. Staff members also learn, support, and gain insights from other national committees for Consumer Protection, Service Quality, Intercarrier Compensation, State Universal Fund Administrators, telephone numbering policies (State Call Group), and the North American Number Plan Administrator ("NANPA"). Staff members include policy and federal issues specialists, an economist, an accountant, an engineer, and principal analysts with specialty knowledge of telecommunications.

Major Milestones Achieved: All certified telecommunications local exchange carriers, including SBC Indiana, are now able to offer long distance services, to package and bundle services, and to employ discounting and promotions to attract and maintain customers. According to a survey conducted by the Utility Regulatory Commission the number of wired telephone lines in Indiana hit an all-time high of over 4.5 million lines in 2003. Competitive wireline companies provided 12.4 % of those lines, or over 563,000 lines, up from 357,000 reported a year ago. The December 2003 Local Competition Survey by the FCC tallied wireless service to 2,643,000 users in Indiana, an increase of 11% from 2002.

Broadband Growth: Broadband, or high speed Internet access, has become a high priority at both the federal and state levels. The IURC recognized its importance and has, through its staff, participated in negotiations resulting in commitments from three companies to expand deployment. The Commission approved Settlement Agreements for SBC Indiana, Verizon and Sprint, which include commitments to deploy high speed Internet access services to nearly 80% of their customers. The settlement agreements also set a streamlined alternative regulatory framework in place while ensuring high quality service, low basic service rates and other important consumer protections.

In 2003, companies reported 419,000 high speed Internet access connections, more than double the number in the previous year.

Affordable Universal Service and Statewide Referral Assistance: The Commission ordered the establishment of an explicit state universal service fund to keep basic services affordable in high cost rural areas. An investigation is underway to determine whether the federal LifeLine and LinkUp program is adequately serving low-income Indiana residents. Also, the Commission ordered exclusive statewide use and administration of the 211 code by the Indiana 211 Partnership making it easier for citizens to obtain a referral to the right social services assistance. The Commission took action on requests by wireless carriers seeking certification to qualify for federal high cost support in rural areas.

Carrier-to-Carrier Issues: The Commission resolved disputes over rules for interconnection of networks, initiated proceedings to smoothly transfer user-telephone numbers, approved increases to some of SBC's wholesale prices, and worked with the

industry to conserve telephone numbering resources, thereby avoiding further Area Code changes.

Three General Areas of Transition: The report examines the transition in market conditions, the transition in telecommunications technology, and the transition in regulations. Each transition is intertwined with the other and must be monitored to ensure the balancing of the industry interests with the public interests to ensure fair and affordable rates, high service quality and a modern telecommunications infrastructure. As these transitions occur, regulatory jurisdiction and policy need to be assessed at the state, national, and international level. Cooperative federalism, the sharing of jurisdictional responsibilities, is required to ensure state and local factors are properly considered when new policy is established. The cumulative effects of the transitions must neither be permitted to stifle competition nor result in deregulated monopolies, which could harm consumers.

Major Challenges Ahead: This report alerts the Regulatory Flexibility Committee that the state's authority to regulate basic local service rates and service quality may be preempted by the FCC whenever service is provided using alternate or intermodal technologies. Emerging services, based on packet technology and available through high speed connections to the Internet, are being examined in the FCC's Notice of Proposed Rulemaking.[2] The Regulatory Flexibility Committee must assess the effect on state revenues as new technologies and combined local and long distance ("any-distance") calling shift to federal jurisdiction. Legislators should be aware of the increases to consumer's communications bills resulting from changes proposed to federal universal service fees and the sudden appearance of miscellaneous "add-on fees". Likewise, analysis is required to forecast the effect of policy changes to high cost universal service support for rural telephone companies, and for services to schools, libraries and rural health care facilities. Finally, a series of federal decisions threatens to end the most popular connections used by competitive companies to serve customers. It is unclear what the competitive landscape will look like at this time next year; however, the Indiana Utility Regulatory Commission balances the interests of the industry and continues to foster an environment in which consumers will have available the widest array of state-of-the-art services at the most economic and reasonable cost possible.

[2] FCC's WC Docket 04-36, *IP-Enabled Services* Notice *of Proposed Rulemaking*. Rel. March 10, 2004.

2.0 Market Transitions

For over a decade the IURC has monitored data and industry trends in Indiana to report the effects of competition to the Regulatory Flexibility Committee. Consumers now have more competitive voice-provider choices than ever before. However, the effects of competition on rural providers must be monitored because of universal service and carrier-of-last-resort obligations. Markets will continue to be in transition because of recent FCC and court actions that substantially change ILEC requirements to share network elements. This year many disputes and policy considerations arose as a result of market transitions.

Annual Survey Shows Growth of Competitive Choice

Table 1 on the following page, reports the number of lines and the share of the relevant markets of both incumbents and competitive providers. The Incumbent Local Exchange Carriers ("ILECs") report a modest increase in total lines but a slight drop in the total share of lines statewide. ILECs maintain an overwhelming share of the wired marketplace compared to the competitive carriers. At the end of 2003, Competitive Local Exchange Carriers ("CLECs") had 563,000 lines in service, or a 12.4 % share of the wireline market. The CLECs more than doubled the number of Residential lines from 2002, while in the same period ILECs reported gaining 60,000 residential lines and 9,000 non-residential lines.

Measuring Competition Has Become More Complex: Four concerns are noted regarding the accuracy of data reported by telephone companies:

1. Accuracy: The FCC and the Securities and Exchange Commission ("SEC") are investigating the reporting methods of some companies this year. The FCC's most recent Local Telephone Competition report contains data on 7 ILECs and 12 CLECs in Indiana, while this IURC report summarizes line counts from all 41 ILECs and 79 CLECs. Companies attest to the accuracy or reports to both agencies, however material differences between the reports exist. For example, the FCC's report shows an ILEC decline year-over-year of 270,000 lines and 458,000 lines in use by CLECs. However, in response to this Commission's survey, ILECs reported an increase of 70,000 lines, while the CLECs reported a total of 563,000 lines in use statewide for the same time period.

2. Relevant Measures: The number of minutes billed by wireline carriers is declining nationally while minutes carried and line count of wireless carriers[3] reflect some of that shift. The popularity of bundled service packages, the expansion of any-distance calling plans, and the growth of wireless lines mean that traditional competitive reporting is more subject to interpretation than in prior years.

3. Granular Detail: Reporting and analysis are now subject to confidentiality requests of the various carriers, due to concerns about confidentiality and trade secrets. Therefore,

[3] *Local Telephone Competition: Status as of December 31, 2003* FCC's Industry Analysis and Technology Division, Wireline Competition Bureau, released June 18, 2004 shows over 2.6 million wireless lines in Indiana.

this report contains numbers aggregated by total-ILECs and total-CLECs. The effects of competition on a specific company or on classes of companies (rural, mid-sized, and large) and on specific geographic markets, is therefore less granular.

4. Blurring Roles: Traditional companies, local and long distance alike, have multiple roles (ILEC, CLEC, wireless company, and Internet service provider). Some may even provide cable television programming while others may have business relationships with national satellite multi-media providers.

Table 1: Summary of Indiana Wireline Competition Data

Highlights	**2003**	**2002**	**2001**	**2000**
ILEC Share of Wireline Services Statewide	87.6%	91.6%	94.1%	94.8%
CLEC Share of Wireline Services Statewide	12.4%	8.4%	5.9%	5.2%
ILEC Wirelines in Service	3,979,000	3,910,000	3,821,000	3,691,000
CLEC Wirelines in Service	563,000	357,000	241,000	203,000
Total Wirelines in Service	4,542,000	4,267,000	4,062,000	3,894,000
Wireless Subscribers	2,643,000	2,356,000	1,897,000	Not Available
Statewide ILEC Residential Lines	2,424,000	2,364,000	2,510,000	2,505,000
Statewide ILEC % Share (Residential Lines)	88.4%	94.1%	98.0%	97.8%
Statewide CLEC Residential Lines	319,000	149,000	50,000	56,000
Statewide CLEC % Share (Residential Lines)	11.6%	5.9%	2.0%	2.2%
Statewide ILEC Business Lines	1,555,000	1,546,000	1,311,000	1,186,000
Statewide ILEC % Share (Business Lines)	86.4%	88.1%	87.3%	89.0%
Statewide CLEC Business Lines	244,000	208,000	191,000	147,000
Statewide CLEC % Share (Business Lines)	13.6%	11.9%	12.7%	11.0%
Statewide Wireline Growth Rate	6.4%	5.0%	4.3%	7.9%
ILEC Wireline Growth Rate	1.8%	2.3%	3.5%	3.7%
CLEC Wireline Growth Rate	57.7%	48.1%	18.7%	405.4%
ILECs in Indiana	41	41	41	41
CLECs Responding to Survey	79	53	40	46

Chart 1 shows methods used by CLECs to deliver services in 2003.

1. Unbundled Network Elements – Platform ("UNE-P") was the preferred method, at 52%. With UNE-P a CLEC can lease all the elements necessary to provide services at Total Element Long-Run Incremental Costs ("TELRIC") - a cost methodology created by the FCC that results in low UNE rates. UNE-P requires no CLEC owned facilities, and permits the CLEC to collect long distance access revenues and reciprocal compensation.
2. "Pure Facilities-Based" is the second most frequently used method, at 26%. Here the CLEC owns all the facilities, and the ILEC and CLEC merely interconnect and exchange traffic.
3. UNE-Loop, also known as unbundled local loops, accounts for 16% of the market. With UNE-Loop CLECs only lease the last-mile connection and use their own switching and transport. It is difficult for CLECs to replicate the local loop for the vast majority of residential and business customers.
4. Resold lines account for 5% of the CLEC's service. Resellers obtain an entire service, such as Basic Local Service, from the ILEC at a retail discount (between 20% and 25%) and "resell" the service.
5. "Special Access" circuits (1%) are used when the CLEC orders a high capacity line from the ILEC to connect the customer to the CLEC.

Chart 1

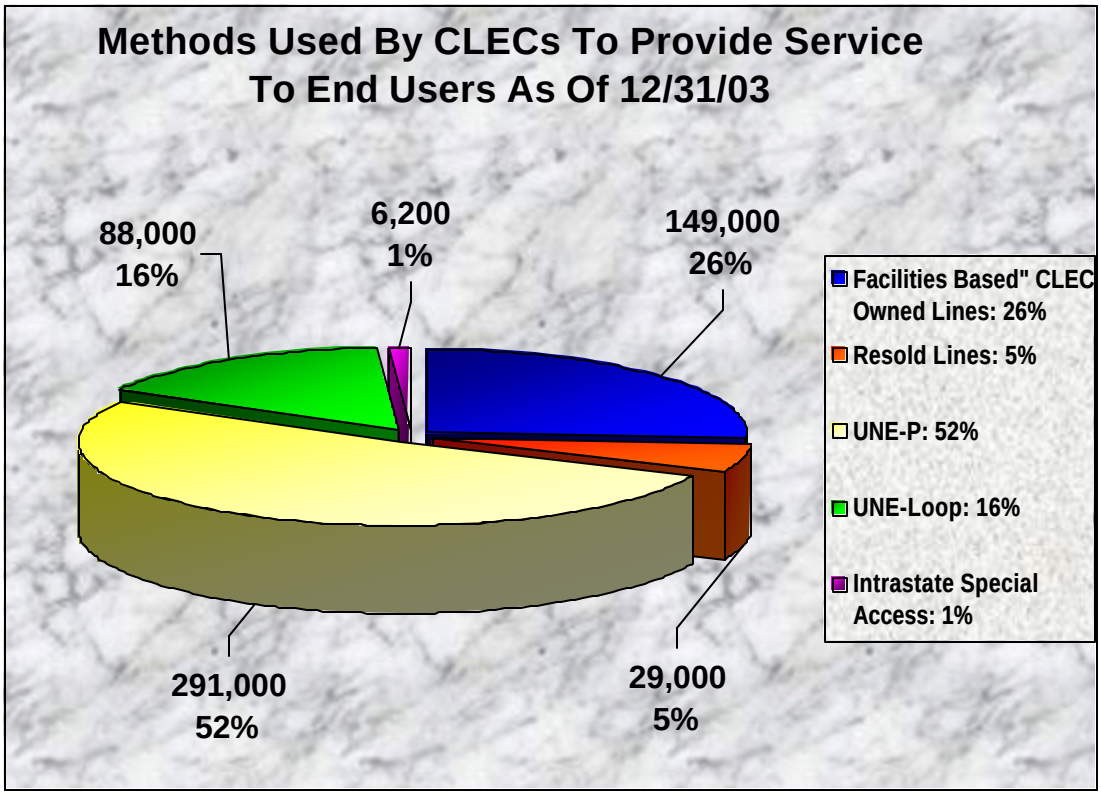
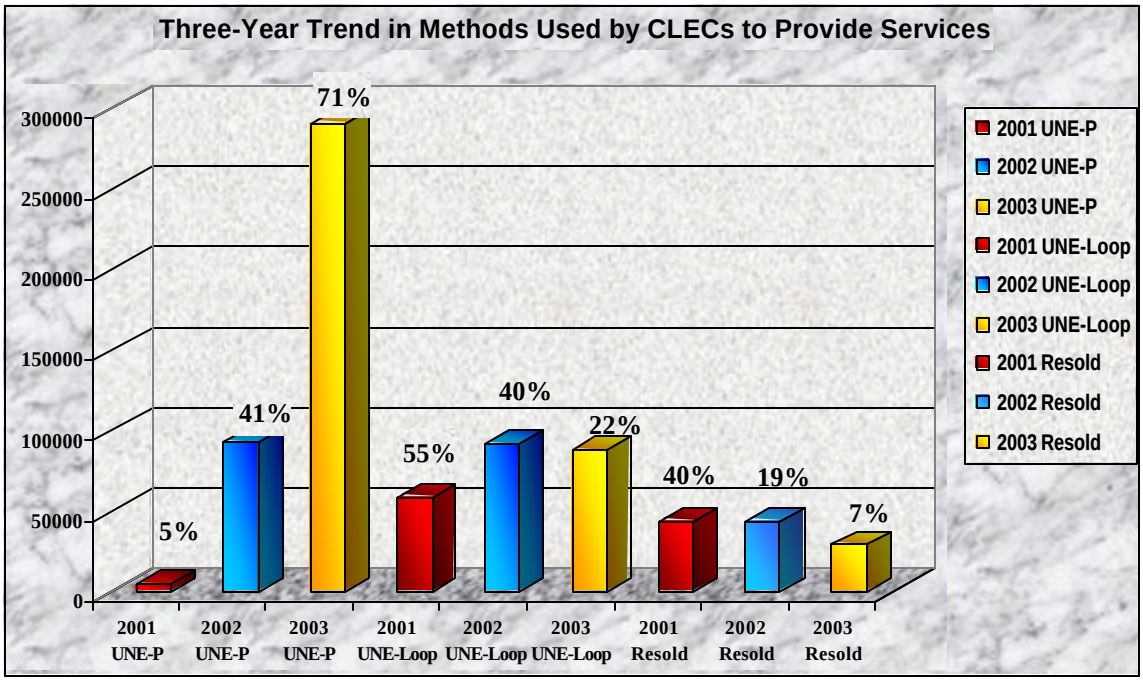


Chart 2 shows CLECs' three year shift to UNE-P lines and the relative declines of UNE-Loop and Resold lines. The use of UNE-P began in 2001 as large CLECs like AT&T and MCI began use of this method of competitive entry. The use of UNE-P now makes up 71% of the market or 291,000 lines.

Chart 2



Competitive Policy Considerations

In this section, we examine changing policies and the significant effects of those changes for the past eight years under the provisions of the Telecommunications Act of 1996.

The Future of UNE-P

Competitive companies purchase a controversial service called UNE-P from some incumbents (SBC and Verizon) to serve their customers. As indicated above, UNE-P has been the driving force behind the increase in competition and is the most popular form of CLEC entry today. Action earlier in 2004 by the federal DC Circuit Court, the USTA II decision, effectively ends that method of competition. After a period of transition, yet to be fully defined by the FCC, wholesale rules will change, interconnection agreements will be modified, and the rates paid by CLECs to ILECs for use of many of their network elements will rise substantially or be unavailable to CLECs. Many in the industry believe CLEC customers will drift back to the incumbent carriers as companies like AT&T and MCI pull out of the residential market. Simply stated, UNE-P is dead unless an ILEC is willing to negotiate with CLECs, but such negotiations are unlikely to occur without a compelling obligation to provide a similar service. The consumer effect of fewer choices is yet to be determined given these developments and technology changes such as Voice Over Internet Protocol ("VOIP") and migration of customers to wireless-only service.

Here is a recent summary of events effecting UNE-P: In what has become known as the Triennial Review Order ("TRO"), issued on August 21, 2003, the FCC adopted the latest version of its rules implementing the network unbundling requirements of TA-96. In this order the FCC relieved ILECs of some previous obligations to provide certain parts of their networks at regulated prices. In the same order, the FCC also delegated to state utility commissions, such as the IURC, the authority to determine the extent of ILECs' obligations to provide other parts of their networks at regulated prices.

On August 27, 2003, the Commission initiated an investigation to exercise the authority delegated by the FCC in the TRO. However, the DC Circuit Court of Appeals ruled on March 2, 2004, that portions of the TRO were unlawful. Specifically, the court ruled that state commissions, like the IURC, do not have the authority delegated to them by the FCC to make decisions regarding specific UNEs to be unbundled pursuant to the TRO. The DC Circuit's TRO remand decision became effective June 16, 2004 when the FCC declined to seek appeal of the ruling to the Supreme Court. In the aftermath of this decision, SBC and Verizon made commitments to continue to provide UNEs at regulated prices through year-end in order to provide for market certainty while the FCC worked to develop new unbundling rules. The FCC released interim unbundling rules on August 20, 2004 and Chairman Powell promised permanent rules by the end of 2004. The rules include a 6-months freeze on rates, terms, and conditions. After six months, if no final rules are in place, the rates for UNE-P will increase by a dollar and rates for enterprise loops and/or dedicated transport will increase by 15% for the existing customer base. CLECs will negotiate with ILECs to determine rates for new customers.

Shifts in Long Distance Markets

Long distance ("LD") service is fast becoming any-distance service as most Local Exchange Companies ("LECs") introduce bundles and packages of services which compete with the wireless offerings of features and calling for fixed prices. LD is now viewed as a low-margin business. MCI has just emerged from bankruptcy and at the end of July 2004 Moody's Investors Service downgraded AT&T's debt rating to junk level.

Here is the recent background on the remarkable shifts: In 2003, the last of the big ILECs obtained approval to offer LD services. SBC Indiana received FCC approval on October 15, 2003[4] based on meeting a 14-point checklist of federally mandated requirements. SBC has quickly become the nation's number 3 long distance residential provider as reported by the Wall Street Journal.

Consumers benefit from combined services (local, LD, wireless, digital subscriber line broadband, and/or possibly a tie-in with satellite TV) because of the discounts. Companies benefit by selling more services and strengthening customer ties and loyalty, thereby reducing customer churn from one carrier to another. Traditional long distance companies have lost significant market share to the regional companies such as SBC,

[4] *In the Matter of: Joint Application by SBC Communications Inc., Indiana Bell Tel. Co., Inc., et al. for Authorization to Provide In-Region, InterLATA Services in Illinois, Indiana, Ohio, and Wisconsin*, WC Docket No. 03-167, Memorandum Opinion and Order (FCC 03-243 Rel. Oct. 15, 2003).

Verizon, Qwest, and BellSouth, and to wireless companies due to the customer's ability to one-stop-shop. The migration of calling to any-distance will continue as voice calls shift to broadband as well. (See Section 3.0 Technology Transitions of this report.)

Rural Concerns

Challenges confronting rural telephone companies arise from shifts in LD calling, threatened changes to the universal service high cost program and wireless carriers.

1. Universal Service Changes: Rural companies rely heavily on access revenues (revenues from toll carriers who use the companies' networks) and universal service funds to serve customers in high cost areas at rates comparable to those paid in urban areas. As noted in the following "Intercarrier Compensation" section, this may be a big problem. Indiana rural carriers received $ 47.3 million in 2002, from the federal Universal Service High Cost Fund. Any change or reduction to that fund may have substantial effect on rural companies' financial viability and maintenance of a modern network infrastructure.

2. Rural CLEC Competition: Most CLECs operate in the state's urban centers, such as Indianapolis, Fort Wayne, Evansville, Terre Haute and the areas of the state in the Chicago, Cincinnati and Louisville metropolitan areas. Rural areas lack critical population mass, meaning rural companies have higher infrastructure costs and lower economies of scale, and therefore traditional competition is slow to develop. To seek new sources of revenue, some rural companies have established competitive subsidiaries offering local, LD and high speed Internet services beyond their designated ILEC boundaries.

3. Wireless Carriers Compete with the Rural ILECs: While traditional competition is slow to develop, wireless carriers are challenging the rural ILECs. Wireless carriers often have larger calling scopes (any-distance) than wireline networks but may not provide ubiquitous quality call coverage in rural areas. Rural carriers that have withdrawn from Commission jurisdiction cited the presence of wireless competition to support their petitions.[5]

4. Wireless Carriers Seek High Cost Funding: The FCC gives states the role of designating carriers that are eligible to receive federal Universal Service Funds ("USF") for serving rural, high-cost areas. In 2003, the IURC received two petitions for Eligible Telecommunications Carrier ("ETC") designation by wireless providers in Cause Nos. 41052-ETC-43 and 41052-ETC-46. Traditionally, ETCs have been landline local exchange providers as an ETC designation means that the company must be a carrier of last resort. Certain responsibilities come with the ETC designation, such as providing access to emergency services and toll limitation to qualifying low-income customers. It

[5] Indiana Code 8-1-2-88.5 provides a procedure for telephone companies with less than 40,000 access lines to become exempt from Commission jurisdiction. The Commission must grant the request unless no other telecommunications company has been issued a certificate of territorial authority to provide the functional equivalent of local exchange access service in any part of the subject company's local exchange access service territory.

also makes the company eligible to receive Universal Service funds from the federal government if they serve one of the rural high-cost areas of the state.

5. Rural Local Number Portability to Wireless: Last year, the FCC required all telecommunications carriers to offer Local Number Portability ("LNP") to the customers of wireless carriers requesting it. This was the first LNP requirement to affect the small rural companies. Local exchange carriers within the top 100 Metropolitan Statistical Areas were required to have wireless-to-wireline local number portability by November 24, 2003, and all other local exchange carriers were required to provide it by May 24, 2004 or within six months of a request from a wireless provider.

In October 2003, twenty-seven rural ILECs filed petitions with the IURC seeking relief from their LNP obligations, stating that relief was necessary due to economic burdens, technical infeasibility and unresolved federal policies. On May 19, 2004, the Commission found that none of the petitioners demonstrated economic or technical hardships sufficient to justify a permanent suspension of LNP obligations. However, the Commission did find that carriers that required additional time for network upgrades, administrative functions and testing could have a ninety day extension beyond the May 24 deadline. Wireline to wireless number portability should be available from most rural carriers by August 18, 2004. (Cause Nos. 42529, 42536, 52550)

Intercarrier Compensation

Compensation between carriers for use of each others' network or for carrying traffic, more commonly called intercarrier compensation, is at a critical juncture. Intercarrier compensation includes access charges paid by long distance providers to ILECs, access charges paid by wireless carries to ILECs, and reciprocal compensation for exchange of local traffic between ILEC and CLEC. As more options exist for any-distance calling and more technologies are able to offer voice service, there is a need to insure accurate and consistent policies governing intercarrier compensation, whether for carrier-to-carrier charges, or for the burden that may shift to Indiana consumers.

Intercarrier compensation is another issue of hot debate at the national and state levels. Several industry task forces have proposed solutions while state regulatory agencies have proposed a set of principles developed by a committee of the National Association of Regulatory Utility Commissioners ("NARUC").

Today, with shifts in markets and technologies, contention arises over the proper classification of calls, the proper charges, and even the ability to bill the originating company. Other important questions to be resolved are whether different technologies have different obligations and whether charges should be explicitly recovered from consumers. Finally, if significant changes occur, parties disagree over how they should be implemented and the length of the phase-in.

While many of the issues involving intercarrier compensation discussed above will be resolved by the FCC, the consequences for companies and customers in Indiana will be significant. For example, many Indiana ILECs' intrastate access charges mirror interstate

access charges. If the FCC determines that access rates paid by toll providers should be lowered, ILEC revenues will decrease. Because rural carriers derive a significant source of revenue from intercarrier compensation, any shift or reduction may substantially reduce operating revenues for those companies.

Wholesale Rates

On January 5, 2004, the IURC issued an order which increased some of SBC's UNE rates (Cause No. 42393). In that case, the IURC revised key inputs to a TELRIC[6] cost study including cost of capital, depreciation, utilization of the network ("fill factor"), shared and common costs, and network design. The IURC found that the new rates were appropriate to provide SBC the opportunity to recover the forward looking cost of providing UNEs. The Commission believes new rates provide SBC Indiana sufficient incentive to continue to invest in and develop its network and to compete robustly and fairly for customers.

Competitive Guidelines

On October 29, 2003, the Commission opened an investigation "to consider developing appropriate regulatory guidelines for the telecommunications industry", including, but not necessarily limited to custom offers ("CSOs"), promotions, bundling, winback rules, and waiting periods in conjunction with line loss notification. The Commission has received preliminary comments of parties and is in the process of finalizing an issues list.

[6] TELRIC is the acronym for "total element, long run incremental cost". It is forward-looking costs used to determine the price at which ILECs must lease networks to competitors. TELRIC represents the hypothetical costs incurred in building a new network from scratch using the most current technology.

3.0 Technology Transitions

One new service has the attention of the entire industry. A voice application, today delivered mostly over Broadband connections, may have the largest disruptive effect on the industry since AT&T was split up and the Regional Bell Operating Companies created. These changes are the focus of a rewrite of the Telecommunications Act, jurisdictional jockeying, FCC inquiries, potential dramatic implications to Intercarrier Compensation, upheavals in Universal Service, and a potential growth in the areas of the country and state that have access to high-speed services and do not have access to high-speed services, the so called "Digital Divide."

Voice Over Internet Protocol

The traditional circuit-switched telephone network is ubiquitous and reliable, but packet switching – a method by which a "conversation" (voice, video, data, etc.) is sliced into small packets with a unique identification -- and services conforming to Internet Protocol will offer alternatives to the public switched network and provide more choices for broadband users.

A technology that was originally developed to connect computers through the Internet is showing great promise as an efficient, low cost method to provide telecommunications services. Internet Protocol ("IP") has been used in computer-to-computer communications for nearly thirty years. Today, IP technology is widely used to send e-mail and connect to Internet web pages. It depends much more on the intelligence of the equipment connected to the network (e.g., computers and routers) than the traditional telephone network which is based on centralized control and routing.

The low cost of IP technology and the increasing availability of Internet connectivity via high speed broadband connections is enabling IP technology to be used to provide voice calling services, known as VOIP. VOIP may offer a longer term cost advantage over traditional circuit switch technology, as IP uses a single, more efficient connection to users. VOIP has the potential to offer a richer set of features and functionality not possible with traditional networks. In the last year, many in the industry have moved beyond the trial phases of offering this service. Today companies like Vonage, AT&T, and Verizon offer VOIP.

VOIP is available to many consumers with high speed network connections. VOIP may be a meaningful alternative to traditional circuit telephone service at least for those with broadband connections.

Paul Dauby, Vice President and Chief Operating Officer of Perry-Spencer R.T.C., recently listed possible effects on rural companies as VOIP is deployed. He also urged regulatory awareness as competitors deploy service:

- Lowering of access line counts (service revenue loss)
- Lowering of access minutes (access/USF revenue loss)
- Increase in cost of moving traffic (increased operating costs)
- Increase in broadband local loop cost (operating costs)

- Increase in customer complaints (higher service costs and customer dissatisfaction)
- Degradation in 911 service to the customer (public safety interest degradation)
- Generation of Communications Assistance for Law Enforcement Agencies ("CALEA") issues (law enforcement costs and risks)
- Overall degradation of our national telecommunications infrastructure

Broadband Deployment

As noted in the previous section, communications technology and applications are part of fundamental shifts in infrastructure which may change the underlying economic foundation and connection choices available to the public. Indiana citizens must have access to state-of-the-art and cost-effective services and a modern telecommunications infrastructure.

The Commission, through its orders and actions, has helped accelerate broadband deployment by large telephone companies in Indiana by helping negotiate and approve Alternative Regulatory Plans ("ARPs") for Sprint, SBC, and Verizon. Each plan requires investment and deployment of advanced services. One element in each ARP calls for deployment of high speed Internet access to almost 80% of all the lines served by these companies. In the aggregate, the three companies serve 76% of all the wired lines in service in Indiana, primarily in urban areas.

Economic development depends in part on having a modern infrastructure, particularly in communications technology, to remain competitive with other states to attract and maintain business locations in Indiana. The Commission staff works with other state agencies such as the Indiana Economic Development Council and the Department of Commerce in efforts to promote availability and adoption of broadband services to stimulate economic growth.

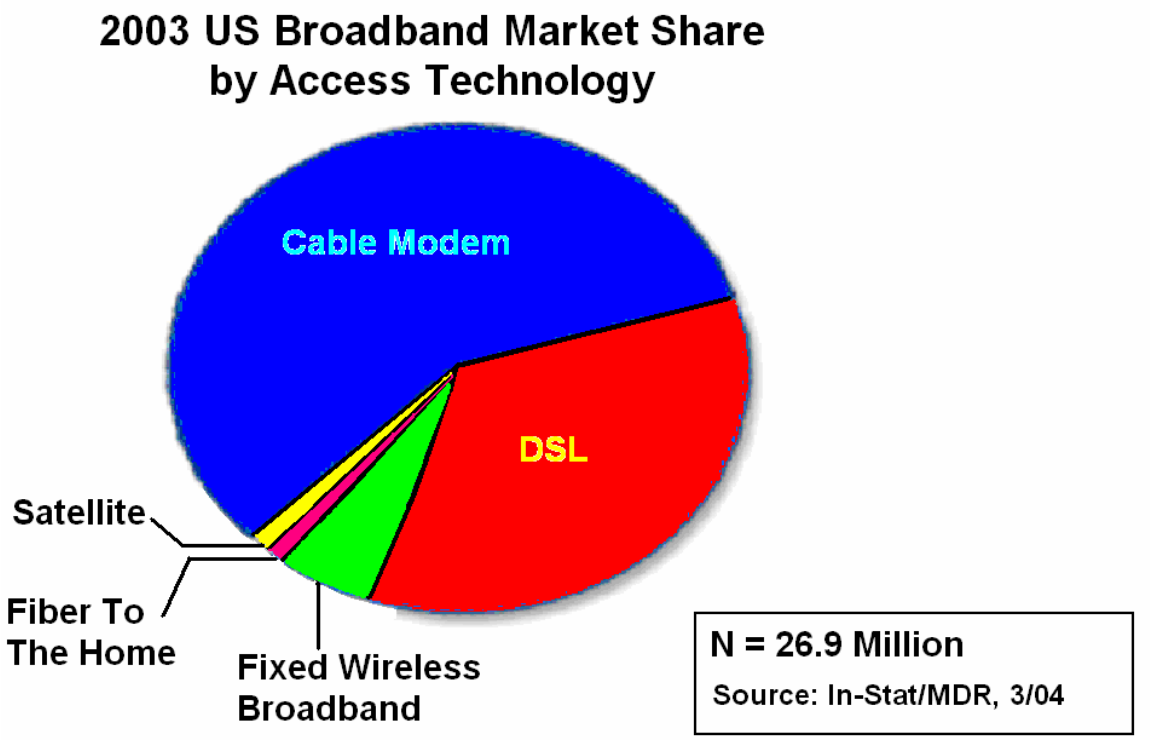
High Speed Connection Options

Today there are several popular methods to obtain high speed access to the Internet. Until recently the majority of consumers reached the Internet through dial-up services, but recent news reports say that more than 51% of the nation's connections are high speed or broadband connections.

1. Cable Modems and Digital Subscriber Line Service: Cable companies provide approximately 60% of the high speed connections today[7] but many analysts anticipate that telephone companies will rapidly gain on the cable companies due to competitive marketing, pricing and roll out of digital subscriber line services. Radio host and syndicated hi-tech columnist, Kim Komando states that "People who use the Web heavily are more likely to depend on broadband. In most cases, you have two decent broadband choices: cable and digital subscriber line ('DSL')". The following chart, based on an In-Stat/MDR high tech research report released in March 2004, estimated market share by access method.

[7] *Bells Are Catching Up in Battle for Broadband*. The New York Times. Ken Belson. July 28, 2004.

Chart 3



Are there other options to obtain high speed Internet access? Wireless access is available in cities such as Evansville, Indianapolis, Scottsburg, Westfield and many others. Universities such as Ball State University and Indiana University offer wireless connections.

2. Wireless Networks: Wireless broadband services offer an economically feasible way to deliver broadband services in smaller communities. Wireless Internet Service Providers ("WISPs") and other providers are gaining subscribers throughout Indiana offering service using fixed wireless broadband ("FWB") technologies, the third most popular method of provide access today. As standards, reliability, and coverage capabilities continue to improve, wireless fidelity ("Wi-Fi") and wireless microwave access ("Wi-Max") options will expand throughout Indiana. Municipalities such as Scottsburg and Evansville have already turned to wireless networks to meet the demand for high speed services. Similarly, hotels, restaurants, coffee shops, and airports are extending wireless high speed connectivity options to meet the needs of the mobile users.

3. Satellite Options: Service providers such as DirecTV and Direcway market satellite-based connections to consumers with a view of the southern sky. Newer companies such as Quantum Connections also help arrange service in northeastern parts of the state using Internet Satellite Platform, Inc. ("ISAT"). Price and performance issues exist with each

option and it is important that the consumer carefully consider the range of options available to suit their particular needs.

4. Broadband Over Power Lines: Broadband over Power Line ("BPL") is being tested in several areas of the United States and offers to provide yet another physical connection to the premises. The IURC will host an open meeting on October 6, 2004 where companies such as Lebanon Municipal Power, Cinergy, South Central Indiana REMC, Amperion, and Current Communications will discuss their deployment plans and capabilities. BPL may be yet another solution to the challenge of extending broadband services in rural areas where "the scarcity of potential subscribers hasn't justified the high cost of laying cable or building satellite towers". [8]

In communities with existing broadband options, the introduction of BPL may lead to competitive effects such as lower prices, higher service quality, and greater innovation. This technology is in the testing phase and the FCC recently opened a Notice of Proposed Rulemaking (ET Docket Nos. 03-104 and 04-37) to gain more information, particularly regarding interference with amateur or "ham" radio devices. Many amateur radio operators are concerned that widespread BPL deployment would cause interference that would render ham radio equipment useless in many areas. They argue that "destroying a large portion of the wireless spectrum is not justifiable because the amateur frequency allocations belong to the people internationally and can be enjoyed in nearly every country by simply passing a test and getting a license. No other radio spectrum can provide world wide communications without any supporting infrastructure." [9]

[8] *Broadband Over Power Lines*?. Wired News. February 02, 2003
[9] Editorial: *Broadband Fool's Gold*. Broadband Reports.com. Anthony Good, March 30, 2004

4.0 Transitions in Regulations

The Commission continues to evaluate its policies in response to market and technology changes. For the past twenty years the Commission has followed a path of moving away from Commission jurisdiction for small companies, deregulating some services, and allowing companies to have comprehensive alternative regulatory plans. We show the timeline in Appendix 1.

Regulatory Flexibility

The three largest telephone companies in Indiana reached agreement with various parties regarding the regulatory framework under which they operate. Each agreement resulted from negotiation and compromise and is intended to reasonably balance various consumer safeguards with continuing business interests and to establish the appropriate regulatory flexibility necessary for Indiana's telecommunications marketplace. Table 2 on the following page provides highlights of each ARP.

Sprint - On December 30, 2003, the Commission approved the stipulation and settlement agreement filed by Sprint and also signed by the Utility Consumer Counselor and the Commission's testimonial staff. In exchange for regulatory flexibility, the parties agreed to caps on basic local service rates over the term of the agreement; additional broadband deployment within Sprint's Indiana territory; penalties for failure to meet service quality standards; commitments for consumer education and low income programs; and a commitment to provide a technology seminar for schools and libraries in Sprint's Indiana territory.

SBC Indiana - On June 30, 2004, the Commission approved greater regulatory flexibility for SBC Indiana. The stipulation and settlement agreement filed by SBC Indiana and also signed by Citizens Action Coalition of Indiana, Inc. and United Senior Action of Indiana, Inc., the Indiana Office of Utility Consumer Counselor, the Intelenet Commission, and the Commission's testimonial staff includes caps on basic local service rates over the term of the agreement; a significant amount of money earmarked for consumer education; and enhanced broadband deployment particularly focused in rural areas within SBC's Indiana territory.

Verizon - Verizon became the third company to submit a stipulation and settlement agreement for approval. The settlement agreement was approved by the Commission on July 28, 2004, and was also signed by the Utility Consumer Counselor, AT&T and the Commission's testimonial staff. This global settlement is unique in that it represents Verizon's first ARP in Indiana. The settlement agreement, like its industry predecessors, commits the company to capping its existing basic local service rates over the term of the agreement. Verizon also agreed to deploy stand-alone DSL service within its region so that consumers can enjoy the benefits associated with high speed services without necessarily having to also subscribe to Verizon's voice service.

Table 2: Highlights of Alternative Regulatory Plans

	Sprint	SBC Indiana	Verizon
Term – Years	5 Years	3 Years	3 + Years
Levels of Price Flexibility	3 Flexible Tiers - with oversight by IURC	3 Flexible Tiers - with oversight by IURC	3 Flexible Tiers - with oversight by IURC
Bundling, Packages, & Promotions	Yes	Yes	Yes
High Speed Commitment	70% of lines capable - by 12/2008	77 % of Living Units - by 6/30/2008	73 % lines capable - by 12/2007
Service Quality Requirements	Standards above industry	Standards above industry	Standards above industry
Custom Pricing for Businesses	Custom contracts permitted	Custom contracts permitted	Custom contracts permitted
Customer Education	Educational commitment; No specified amount.	$850,000 for customer education	$800,000 for customer education
LifeLine/Link Up Service	Enhanced participation	Enhanced participation	Enhanced participation
Basic Local Service Rates	Capped at Existing Level	Capped at Existing Level	Capped at Existing Level

911, 211, 511 and Conservation of Numbering Resources

Implementing public safety and welfare policies, protecting consumers, and managing numbering resources, particularly post September 11, 2001, is more important and more challenging as new telecommunications carriers utilizing new technologies enter the market.

E-911

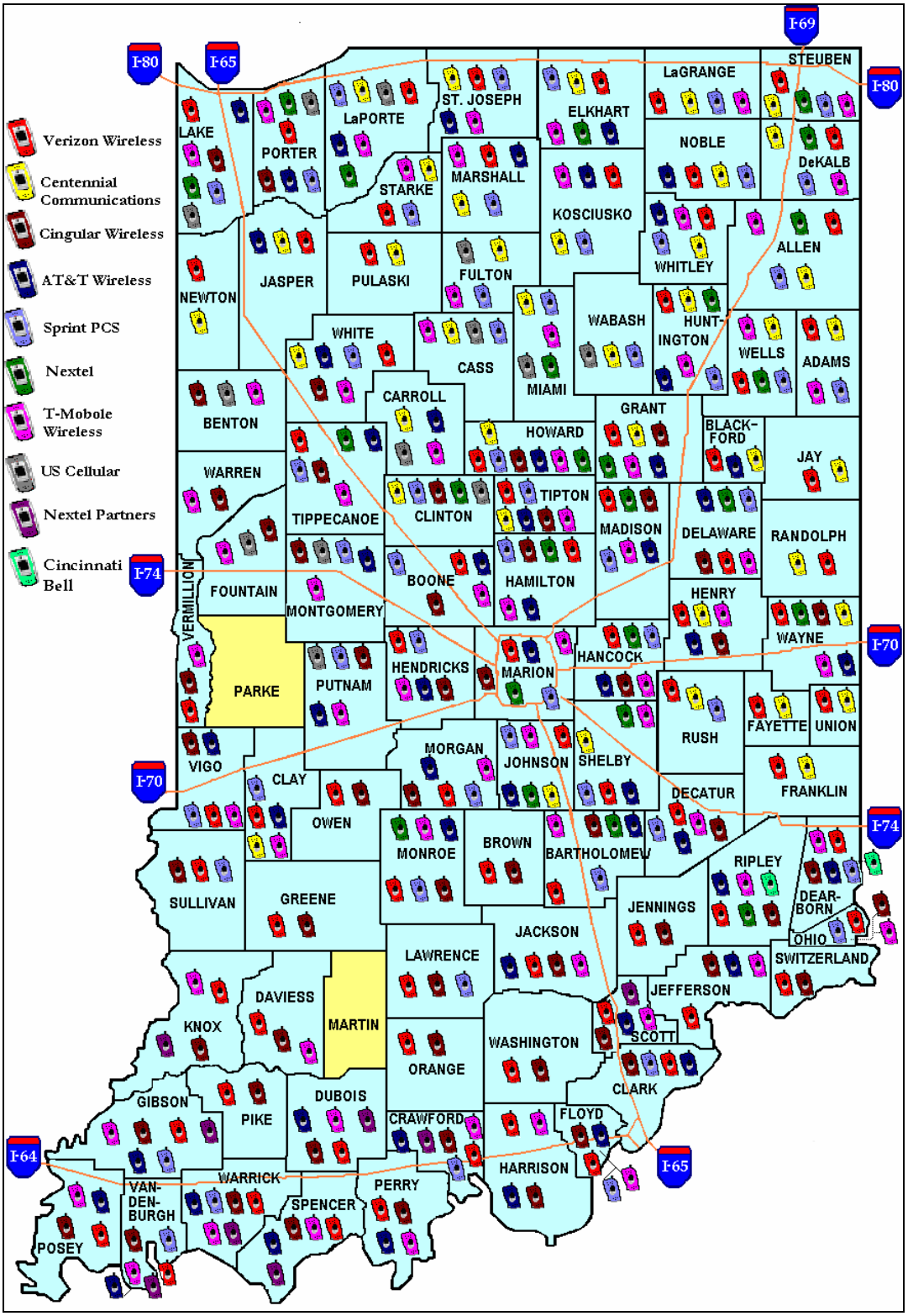
Enhanced 911 ("E-911") provides the name, address and phone number of the caller to emergency responders. This allows for the quick dispatch of help to the exact location of the emergency. Indiana, through the vision of its legislature, has one of the best funded and operational E-911 systems in the country and all counties in Indiana, except Martin and Parke, have county-wide landline E-911 service. Martin and Parke counties are scheduled to have county-wide landline E-911 service by 2005. Although the IURC is not directly responsible for the implementation of Enhanced 911, the Commission continues to monitor its architecture and implementation to ensure that our policies support the goal of statewide implementation of E-911.

1. Wireless E-911: The mobility of wireless phones makes them an asset in emergencies, but in the absence of *Enhanced*-911, callers must be able to identify where they are located. Unlike wireline E-911, which sends the originating number to a data base where it will correspond with the name and address, it is difficult for the wireless system to provide the exact location of the caller. The FCC has addressed this issue by establishing a two-phase process for wireless service providers to deploy E-911 service. Phase I requires that the system locate the caller by identifying the cell tower closest to the caller. Phase II requires the system to locate the caller to within either a 50 foot or 100 foot radius depending on the technology used. The FCC established a deadline of April 2000 for the implementation of Phase I and December 2005 for Phase II implementation. These deadlines only apply for localities that are E-911 capable. Maps 1 & 2 show Phases I and II status for the Indiana counties. Martin and Parke counties have not completed Phase I because they do not have E-911 capability. As the number of wireless phones increase emergency call volume, a strain is being put on the public safety-911 answering points. Wireless providers must comply with all requirements and pay the appropriate share for this public safety service.

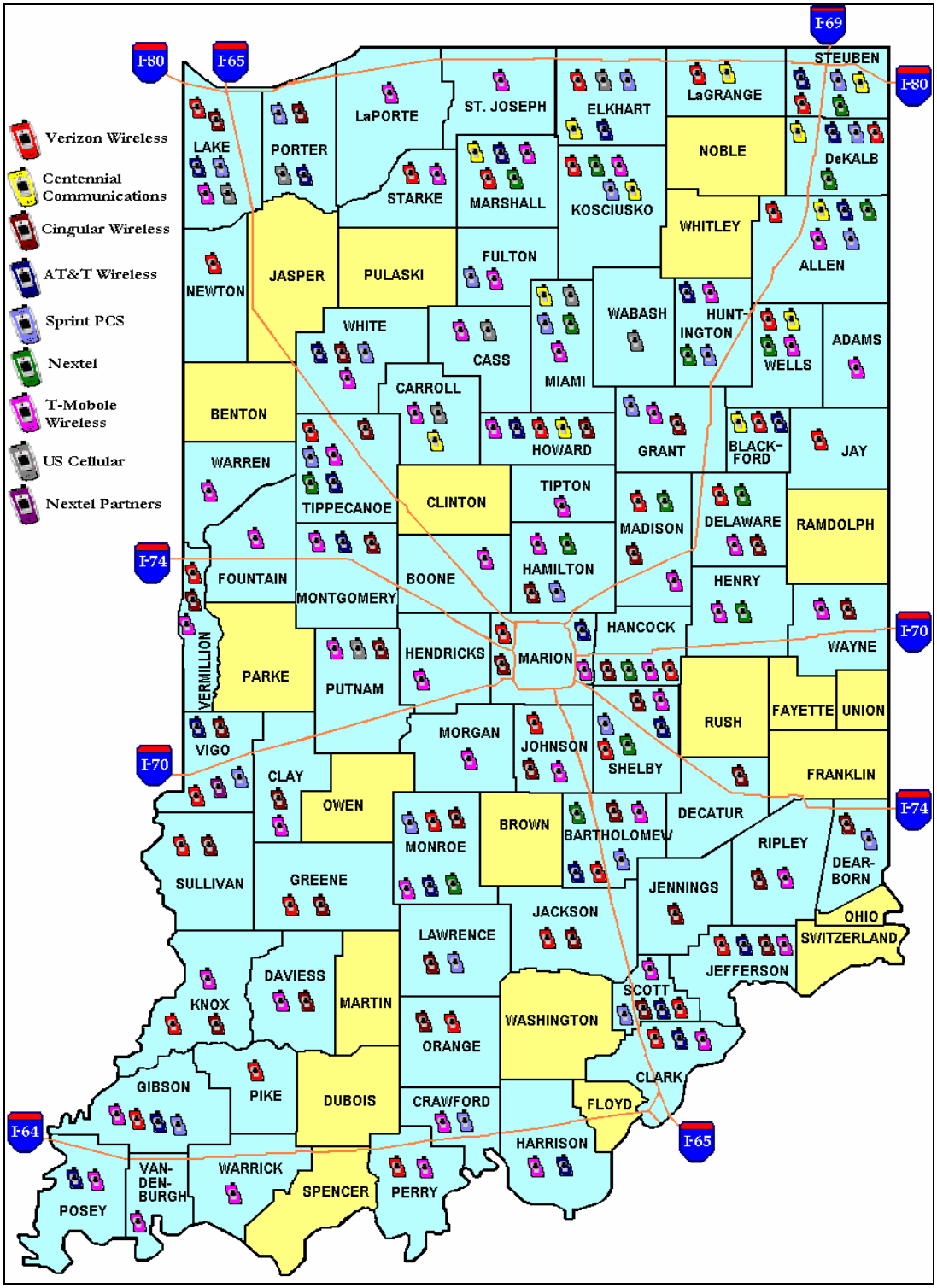
2. Emerging Technologies and E-911: The Commission believes that Voice Over Internet Protocol calls and other emerging telecommunications technologies must incorporate the public safety aspects of E-911 to insure meeting caller location and identification performance standards. This is important because some legislative proposals circulating in Congress exempt VOIP from delivering 911 capable service and current technologies for doing so are still imperfect.

3. Goal for All Indiana: Access to 911 Regardless of Technology: The majority of Indiana's residents have some form of access to emergency services just by dialing 911. In those few areas where 911 is not currently available, land line service should be enabled by 2005.

Map 1: Indiana Wireless E-911 Phase I



Map 2: Indiana Wireless E-911 Phase II



211 Referral to Social Service Agencies

The Indiana 211 Partnership, Inc. was formed in 2000 as an Indiana nonprofit corporation whose stated purpose is:

> To plan for, implement, and oversee a telephone based information and referral system in Indiana through the use of the 211 dialing code, so that people in Indiana in need of human services have quick referrals to those who provide them. Data is collected to assist communities in assessing need and allocating resources. [10]

On October 9, 2001, the Indiana 211 Partnership, Inc. filed a petition under Cause No. 42098 requesting that the Commission recognize and endorse it as the proper and sole party authorized to utilize the 211 dialing code within the state of Indiana. Preliminary authority was granted on February 2, 2002.

In preparation for anticipated federal and/or state funding, the Indiana General Assembly passed HEA 1344 (P.L.60), which became effective July 1, 2004. HEA 1344 creates an account within state government to be administered by the IURC. A public, preliminary hearing in this cause was held May 12, 2004. A final order issued June 14, 2004 recognized the 211 Partnership as the only authorized administrator and user of the 211 code.

511 Dialing Code

In July 2000, the Federal Communications Commission designated 511 as the national travel information number. In June 2001 the nation's first 511 information system was deployed to serve northern Kentucky. As of June of 2004, twenty-one 511 systems have been implemented nationwide. An example of common 511 usages would be travelers and local residents who are seeking current information on traffic and weather related road conditions. Information on public transportation availability/schedules, airport flight delays, tourism events and local emergencies could also be made available.

The Indiana Department of Transportation has contracted with Castle Rock, a transportation consulting company, to design an outline for a proposed 511 system in Indiana. The outlined 511 plan is expected to be completed in October 2004. At that time, Indiana Department of Transportation will review the plan and also seek public comment.

Nationally, 511 systems are being developed "from the ground up." The primary benefit of this approach is the innovative freedom and flexibility allowed in designing a "tailor made system." The biggest drawback is the possibility that the planning process may appear poorly organized and inconsistent to potential users as well as state/local policymakers. To assist in the design and implementation of a 511 system, development

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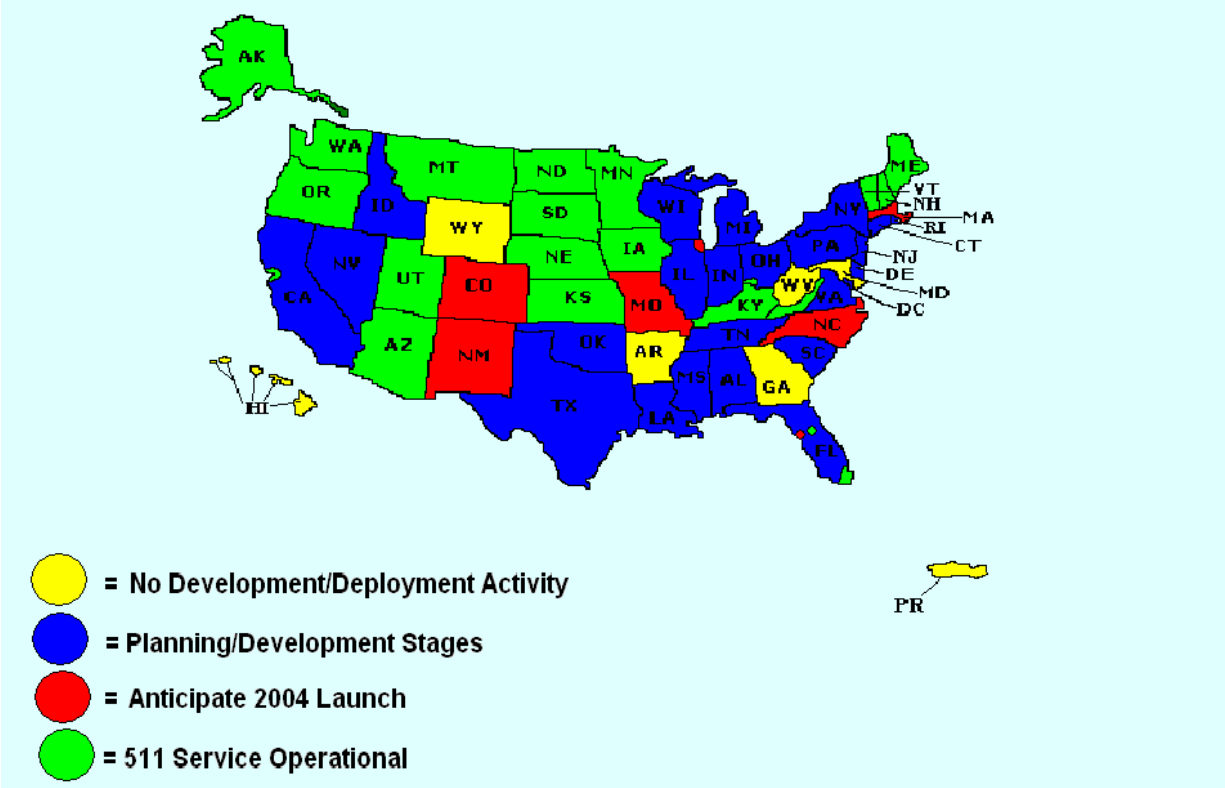
[10] *Report to the Indiana Utility Regulatory Commission*. Indiana 211 Partnership, Inc. 3/25/04

guidelines have been designed and published by a national organization called the *511 Deployment Coalition.*

The following map depicts national 511 development and implementation progress as of January 2004:

Map 3: 511 Information System – National Deployment Status
(as of January 2004)



The above 511 information and map was provided by Deploy511.org

Conserving Telephone Numbers to Avoid Area Code Splits

The increase in telecommunications providers and growth in wireless customers places pressure on the availability of numbering resources. Fortunately, through industry cooperation and number conservation efforts, the pressure to split Area Codes has eased.

Table 3: Area Code Life Projections

Area Code	Year & Quarter
219	2019 2Q
260	2019 2Q
317	2010 4Q
574	2020 2Q
765	2008 2Q
812	2007 2Q

Currently, there is particular concern regarding the ambiguity surrounding the issue of the commercial roll-out of VOIP and its impact on existing numbering resources. In a cause currently being considered by the FCC, SBC IP is requesting the waiver of the rule requiring that telecommunications carriers provide, as part of their applications for initial numbering resources, evidence demonstrating that they are authorized to provide service in the area in which they are seeking those resources.

This rule gives state commissions the authority to "certify" which carriers are allowed to obtain numbers in their region as well as providing the states with the ability to protect and conserve the telephone numbers available in their state. Without this kind of certification or registration mechanism, which is required of all other telecommunications carriers wanting to obtain telephone numbers from the North American Numbering Plan Administrator ("NANPA"), a state commission's ability to monitor the allocation of numbering resources and prevent unnecessary area code splits is severely hindered.

High Service Quality and Fairness in Billing

Service quality and fair billing standards need to be kept up-to-date as competition and the availability of new technologies change the way companies operate.

Service Quality and Customer Rights & Responsibility Rules

The IURC, industry groups and other interested parties participated in discussions regarding the need to modify rules dealing with telephone service quality (170 IAC 7-1.1) and telephone customer rights and responsibilities (170 IAC 7-1.1-12 through 18). The rules are designed to set specific accountability for service quality and needed to be updated as the previous rules were approved in 1979, before there was competition in the local exchange market. The new rules became effective February 3, 2003 and apply to any utility that is engaged in the business of rendering telecommunications services to the public under the jurisdiction of the Commission.

Trends in Wireless Consumer Complaints

The Telecommunications Act of 1996 established rules for the states on the regulation of wireless communication.

> ***47 U.S.C. 332(c)(3)(A)*** *"…no State or local government shall have any authority to regulate the entry of or the rates charged by any commercial mobile service or any private mobile service, except that this paragraph shall not prohibit a State from regulating the other terms and conditions of commercial mobile services. Nothing in this subparagraph shall exempt providers of commercial mobile radio services (where such services are a substitute for land line telephone exchange service for a substantial portion of the communications within such State) from requirements imposed by a State commission on all providers of telecommunications services necessary to ensure the universal availability of telecommunications service at affordable rates…"*

The Indiana Commission has chosen not to regulate most aspects of wireless service quality and billing practices,[11] and complaints regarding wireless services are referred to the FCC. However, the IURC keeps abreast of trends in wireless services and policies of the FCC and other states due to the fact that wireless carriers are an important part of the Indiana telecommunications market.

NARUC passed a resolution in 2003 which encouraged state authorities to promote high quality wireless telecommunications service and devised a "Wireless Best Practices List".[12] Subsequent to the NARUC resolution, the Cellular Telecommunication and Internet Association ("CTIA") adopted some, but not all of NARUC's recommended "best practices" for individual wireless companies to implement on a voluntary basis. Some highlights of the CTIA code include a 14 day trial period for new services and making coverage maps available using generally accepted methods to show outdoor coverage.[13]

In 2004, the California Public Utilities Commission approved a Telecommunications Consumer Bill of Rights which applies to wireless carriers. One controversial provision allows dissatisfied customers to cancel their wireless service within 30 days of signing a contract.

Slamming Regulations

Slamming is the illegal practice of changing a subscriber's telecommunications service provider without permission. The IURC Consumer Affairs Division dealt with 1143 slamming complaints in 2003. Carriers that slam are subject to administrative penalties, depending on the circumstances, including a possible revocation of their authority to provide telecommunications service within the state. One of the IURC's top priorities is to ensure that consumers are treated fairly and have access to the basic telephone services of *their choice*. The IURC will continue to investigate and utilize all available tools at its discretion relating to allegations of slamming.

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[11] With the exception of service quality conditions put on wireless providers seeking public funds.
[12] Press Release. National Association of Regulatory Commissioners. August 26, 2003.
[13] CTA Consumer Code for Wireless Service

Unnecessary Line-Item Charges

The Commission is concerned about the proliferation of line item charges on telephone bills. A growing trend of telecommunications carriers is to place line item charges on customer bills which claim to recover "regulatory", "administrative", or "government-mandated" costs. For many years telephone bills have included charges for services that have been mandated by government entities because they have been deemed to serve the public interest (e.g., 911 surcharges, hearing impaired relay service surcharges, and Universal service surcharges). However, analysis of recently added line items indicates that some line items are not taxes or surcharges but merely a pass through to the customer of ordinary operating costs of the companies. Customers must be able to differentiate between surcharges that are mandated, and those that are not.

This problem became apparent last year when the Indiana General Assembly replaced the Indiana Gross Receipts Tax with the Utility Receipts Tax.[14] While the Gross Receipts Tax had never appeared as a separate line item on customer bills because it was considered a "cost of doing business", many telecommunications carriers decided to pass the cost of the new Utility Receipts Tax through to their customers while making it appear that the state had levied a new tax on telephone customers rather than on utilities. Some utilities did not offer a corresponding credit or reduction to reflect the elimination of the Gross Receipts Tax or the relief enjoyed through property tax reductions. The Commission sent notice to the carriers to discontinue this misleading practice. While most companies removed this specific line item from their bills, some rolled the Utility Receipts Tax into another line item entitled "Regulatory Cost Recovery Fee".

One of the basic tenets of competition is that it rewards efficient carriers and punishes inefficient carriers, because customers are able to shop for the carrier that can offer the best service at the lowest price. The ability to include additional line item charges, as described above, allows a carrier to hide their inefficiencies in separate line item charges and to advertise their service at a lower, more competitive price. Currently, when customers attempt to compare prices and make an informed choice of provider based on price, they are quoted prices by some carriers that are much lower than what they will have to pay when the bill arrives due to "added taxes, surcharges and fees".

This is a problem across the country. On March 30, 2004, the National Association of State Utility Consumer Advocates ("NASUCA") filed a Petition for Declaratory Ruling with the FCC asking the Commission to declare that carriers are prohibited from imposing monthly line item charges on customers' bills unless those charges are expressly mandated by federal, state or local regulatory action. On July 12, 2004, the IURC filed Comments with the FCC supporting the NASUCA Petition and asking the FCC to declare these billing practices to be in violation of Federal Statutes and the Truth-in-Billing Order.

[14] See Indiana Code Section 6-2.3-2-1.

State Universal Service Fund

In November 2001, the FCC released the Multi-Association Group ("MAG") plan, which is an access charge reform plan created specifically for small rural carriers. The MAG plan reduced, *and in some instances phased out,* access rate elements for small rural carriers, but used explicit means to offset the decreased revenues. These events provide the backdrop for the IURC's investigation under Cause No. 42144.

On March 17, 2004, the IURC approved a Settlement Agreement which establishes a state Universal Service fund for Indiana ("IUSF"). The purpose of this fund is to provide for recovery, in part, of intrastate revenue reductions resulting from the FCC's MAG Order and the IURC's intrastate policy of mirroring federal access charges. The Settlement Agreement allows rural ILECs to collect from the fund if they meet criteria set forth in the settlement to demonstrate a need. Eligibility requirements are set forth for each carrier seeking disbursement from the IUSF. The IUSF shall be funded by mandatory contributions from all telecommunications carriers that provide intrastate retail telecommunications service in Indiana and those carriers will be required to pass through those to their customers.

Two existing state funds which supplement small rural carriers, known as the Indiana High Cost Fund and the Transitional DEM Weighting Fund, will be consolidated into the IUSF. In both cases, the contributors to these funds were a small group of telecommunications carriers; therefore the funds were not competitively neutral. The new fund will require customers of all telecommunications carriers, including the customers of companies receiving the IUSF, to contribute, thus making the new fund competitively neutral.

The IUSF will be administered through a neutral, third party administrator. The Commission shall select an Oversight Committee, comprised of one company representative from each of the six different telecommunications industry groups: 1) large ILECs; 2) Rural LECs; 3) Competitive LECs; 4) Interexchange Carriers; 5) wireless carriers; and, 6) the OUCC. This Oversight Committee shall recommend a fund administrator through a Request for Proposal process. The Order sets an implementation date of March 1, 2005 for the IUSF and consolidation of the two existing funds into the IUSF.

The Commission will review IUSF operations periodically in order to ensure that: 1) the IUSF preserves and advances universal service according to mandates; 2) that universal service continues to be made available at rates reasonably comparable to rates for similar services in urban areas; 3) the processes, funding levels, size and operation, and administration remain adequate and sufficient relative to its federal counterpart; and, 4) the operation of the IUSF, relative to its federal counterpart, is appropriate. The IURC also will address the subject of whether or not additional Lifeline/Link Up support is appropriate for low income customers in Indiana in a separate proceeding that can identify and attempt to resolve the unique challenges faced by low income consumers typically associated with access to affordable telecommunications services.

Appendix 1

Alternative Regulation Milestones

This section provides the reader with milestones in the twenty year journey away from the Commission's comprehensive regulation of a telephone company's rate of return, service, access rates, and rules which governed in a monopoly market. This movement can be seen in three ways:

- Small Companies withdraw from the Commission's jurisdiction under two statutes, IC 8-1-17-22.5 (rural telephone cooperatives) and IC 8-1-2-88.5 (companies with less than 40,000 access lines). Of the 38 small companies, 15 have withdrawn from the Commission's jurisdiction since 1984.
- Specialized Providers of services such as radio common carriers, commercial mobile radio providers, payphone providers, and various others have had streamlined requirements and regulation for nearly 20 years.
- Large and Small Companies submit plans for alternative forms of regulation. Indiana Code 8-1-2.6 *et seq.* addresses competition in the provision of telephone services. A comprehensive alternative framework was implemented for Indiana Bell in 1994, and today, the 3 largest companies, SBC Indiana, Verizon, and Sprint all operate with alternative regulatory plans that provide basic consumer protections but free the companies to meet competitive and technological changes in the marketplace. In addition, competitive local exchange carriers have varying degrees of regulation under the alternative regulation statute.

1983 The Legislature enacted the Rural Telephone Cooperative Act that, among other provisions, provides for "cooperative corporations to withdraw, with certain exceptions, from the jurisdiction of the Commission." (IC 8-1-17 *et seq.*)

1984 Two rural cooperative telephone companies, Perry-Spencer and Pulaski-White, withdraw from Commission's jurisdiction.

1985 The Legislature enacted the Alternative Regulatory Statute (IC 8-1-2.6 *et seq.*)

Reduced regulation of Joint Tenant Services – Cause No. 37595

Reduced regulation of some payphones – Cause No. 37619

1986 Reduced regulation of Radio Common Carriers – Cause No. 37896

Reduced regulation of Cellular Mobile Communications – Cause No. 37896-S1

1987 Further reduced regulation of payphones – Cause No. 38158

S&W Telephone Company, Inc. also withdraws. Company returns to Commission's jurisdiction in 1998 as part acquisition by TDS.

1988 Reduced regulation of Wide Area Telephone Service – Cause No. 38149

Specialized service reduced regulation – Cause Nos. 37911, 37557, 37559

The General Assembly enacted IC 8-1-2-88.5, which allowed telephone companies with 6,000 or fewer access lines to withdraw from Commission jurisdiction (amended to 40,000 access lines in 1996).

1989 Reduced regulation and permission for customer specific Centrex and other competitive services – Cause Nos. 38570, 38583, 38561.

Daviess-Martin and Hancock rural telephone corporations withdraw from Commission jurisdiction.

1990 Reduced regulation for other specialized services, private line services, and Operator Services – Cause Nos. 38497, 38563, and 38564.

1991 Washington County Rural Telephone Cooperative, Inc. withdraws from Commission jurisdiction.

1993 Cincinnati Bell Telephone withdraws from Commission jurisdiction.

1994 Commission approved petition of Indiana Bell Telephone ("IBT") for Alternative Regulation of basic local service and carrier access services – Cause No. 39705. Order provided a transitional regulatory framework and allows IBT to compete with unregulated providers of services and equipment. Costly rate cases were eliminated and prices for basic services were capped. The agreement permits "market forces to regulate the price of services in the Other Services category." Access rates were permitted to have instant parity, or immediately match the Federal Carrier Access rates for intrastate access rates. Capital recovery was placed in the hands of IBT as the Commission declined most jurisdiction over depreciation except that IBT must resume the maintenance of actuarial data according to FCC accounting rules.

Southeastern Indiana Rural Telephone Cooperative, Inc. withdraws from Commission jurisdiction.

1994 - 2002 Commission opened an Investigation into all matters pertaining to local exchange competition. Cause No. 39983 examined competitive issues in an executive committee-subcommittee format and resulted in several orders addressing economic, regulatory, public policy, and technology issues. The outcome addressed resale of services, certification requirements for competitive

telephone companies, interconnection agreements, mediation and arbitration of agreements, and filings by rural companies for exemption of certain requirements. Subsequent proceedings included investigation of facilities-based competition, administrative processes, streamlining, and expedited procedures.

1996 – Present Commission granted certificates of authority ("CTAs") to telephone companies to resell or provide facilities-based local exchange telephone service. Companies have relaxed regulation on rates, terms, and conditions and certain filings with the Commission.

1996 Clay County Rural and Mulberry Cooperative withdraw from Commission's jurisdiction.

1996 IC 8-1-2-88.5 was amended to expand the number of small companies that could withdraw from Commission jurisdiction from those with 6,000 or fewer access lines to those with 40,000 or fewer access lines.

1997 Commission received IBT's petition for further alternative regulation of Indiana Bell / Ameritech including customer specific offerings including non-tariffed contracts.

1999 Commission Stipulation and Settlement Agreement with GTE, now Verizon on universal service and access charge reform. Cause No. 40785-S2. This agreement did not include an Alternative Regulatory Plan but did contain rate restructuring, quality of service standards, and opportunities for competition to develop.

Commission established an Alternative Regulatory Plan for United Telephone / Sprint Cause No. 40785-S3. The 4-year agreement includes a price cap for local exchange rates and allowed pricing flexibility for competitive services. Sprint committed to infrastructure modernization.

2001 Commission approved the 2nd Indiana Bell petition for Alternative Regulation of retail and carrier access services - Cause Nos. 40849, 41058, 40785-S1. This Settlement Agreement reduced and capped prices but further deregulated other competitive services, required deployment of broadband and other infrastructure, included consumer safeguards, further eliminated or reduced regulation, and insured compliance with the Federal Telecommunications Act of 1996.

Rochester Telephone withdraws from Commission jurisdiction.

2002 Camden Telephone, Communications Corporation of Southern Indiana, and Tri-County Telephone, all TDS companies, withdraw from Commission's jurisdiction.

Monon Telephone Company also withdraws.

2003 Commission endorses SBC Indiana's petition to the Federal Communications Commission to begin offering long distance service.

2003 Commission approved 2nd Alternative Regulatory Plan for Sprint – Cause 42459. The agreement creates a flexible regulatory framework consistent with the competitive marketplace and recognizes the discretionary nature of consumer choice of optional services that reduces the need for much regulation.

New Lisbon Telephone withdraws from Commission's jurisdiction.

2004 Commission approved a new retail Alternative Regulatory Plan for SBC Indiana – Cause 42405. The Settlement Agreement continues to provide a balance between the interests of the customers and SBC Indiana. Customers receive price protection for basic service and benefit from SBC's broadband infrastructure investments. In return, SBC Indiana receives pricing and regulatory flexibility to respond to changing market conditions. The Settlement Agreement, like its predecessors, permits SBC Indiana to set its own depreciation rates based on the realities of a competitive marketplace and technological innovations rather than artificial regulatory constraints.

2004 Commission approved a new Alternative Regulatory Plan for Verizon – Cause Nos. 42259 and 42551. The Settlement Agreement permits Verizon to operate under its first Alternative Regulatory Plan in Indiana and continue at least until the end of 2007. The agreement provides for relaxed Commission's jurisdiction similar to that afforded SBC Indiana and Sprint.

5.0 Acknowledgments

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List of Acronyms

ARP	Alternative Regulatory Plan
BPL	Broadband Over Power Lines
CLEC	Competitive Local Exchange Carrier
CSO	Customer Specific Offering
CTA	Certificate of Territorial Authority
CTIA	Cellular Telecommunications and Internet Association
DSL	Digital Subscriber Line
E-911	Enhanced 911
ETC	Eligible Telecommunications Carrier
ILEC	Incumbent Local Exchange Carrier
IP	Internet Protocol
IPA	Indiana Payphone Association
IURC	Indiana Utility Regulatory Commission
IUSF	Indiana Universal Services Fund
LEC	Local Exchange Carrier
MAG	Multi-Association Group
NARUC	National Association of Regulatory Utility Commissioners
NASUCA	National Association of State Utility Consumer Advocates
OUCC	Office of Utility Consumer Counselor
RBOC	Regional Bell Operating Companies
RLEC	Rural Local Exchange Carriers
SLC	Subscriber Line Charge
TELRIC	Total Element Long Run Incremental Cost
TIB	Truth In Billing
TRO	Triennial Review Order

UNE	Unbundled Network Elements
UNE-L	Unbundled Network Elements- Loop
UNE-P	Unbundled Network Elements – Platform
VOIP	Voice Over Internet Protocol